



DEPARTMENT OF  
**FINANCE**

EDMUND G. BROWN JR. • GOVERNOR

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Transmitted via e-mail

November 13, 2012

Ms. Jennifer Kent, Chair  
First 5 California Commission  
2389 Gateway Oaks Drive, Room 260  
Sacramento, CA 95833

Dear Ms. Kent:

**Final Report—First 5 California, 2012 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the First 5 California's Children and Families Trust Fund and related accounts for the fiscal year ended June 30, 2012.

The enclosed report is for your information and use. The financial statements were fairly presented in accordance with generally accepted accounting principles. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of First 5 California, Department of General Services, and State Board of Equalization. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Renee Webster-Hawkins, Interim Executive Director, First 5 California  
Ms. Sandra Beck, Chief, Administrative Services Division, First 5 California  
Ms. Cynthia Bridges, Executive Director, State Board of Equalization  
Ms. Lynn Bartolo, Chief, Special Taxes and Fees Division, State Board of Equalization  
Ms. Liz Peralta, Chief Accounting Officer, Accounting Section, State Board of Equalization  
Mr. Brock Wimberley, Acting Chief, Internal Audit Division, State Board of Equalization  
Ms. Jaana Brown, Manager, Contracted Fiscal Services, Department of General Services  
State Controller's Office, Division of Audits, First 5 Oversight Unit

# A F<sub>INANCIAL</sub> S<sub>TATEMENT</sub> A<sub>UDIT</sub>

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## First 5 California Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2012

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Alma Ramirez, CPA  
Supervisor

Staff  
Bryan Nguyen  
Jeremy Jackson  
Matt Fong

This report is also available on our website at <http://www.dof.ca.gov>

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## EXECUTIVE SUMMARY

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The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with an interagency agreement with First 5 California. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund (Fund) and related accounts for the fiscal year ended June 30, 2012.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over operations of the Fund and related accounts.

### **Audit Results**

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2012.
- We noted matters involving the internal control over financial reporting and its operation, and compliance with laws and regulations, that we have reported to First 5 California and Board of Equalization in a separate letter dated November 13, 2012.

This report is intended solely for the information and use of the Fund's management, those charged with governance, and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



## INDEPENDENT AUDITOR'S REPORT

Ms. Jennifer Kent, Chair  
First 5 California Commission  
2389 Gateway Oaks Drive, Room 260  
Sacramento, CA 95833

We have audited the accompanying *Balance Sheet* as of June 30, 2012, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund (Fund) and related accounts for the fiscal year then ended. These financial statements are the responsibility of First 5 California's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund and related accounts as of June 30, 2012, and the results of its operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund and related accounts as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the

purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we identified a deficiency in internal control that we consider to be a significant deficiency. We communicated the significant deficiency to First 5 California and Board of Equalization in a separate letter dated November 13, 2012. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund and related accounts' financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a matter involving compliance that we have reported to First 5 California in a separate letter dated November 13, 2012.

This report is intended solely for the information and use of Fund management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



David Botelho, CPA  
Chief, Office of State Audits and Evaluations

October 26, 2012



# BALANCE SHEET

## First 5 California Children and Families Trust Fund and Related Accounts As of June 30, 2012

|  | Children and Families Trust Fund | County Receipts Account | Mass Media Community Relations Account | Educational Account | Child Care Account | Recreation Home Operation Account | Administration Account | Unallocated Account |
|--|----------------------------------|-------------------------|--|---------------------|--------------------|-----------------------------------|------------------------|---------------------|
| Assets   |                                  | (10-85)                 | (10-85)                                | (10-85)             | (10-85)            | (10-85)                           | (10-85)                | (10-85)             |
| Cash   | \$ 2,303,834                     | \$ 65                   | \$ 833                                 | \$ 636              | \$ 508             | \$ 805                            | \$ 49,726              | \$ 659              |
| Deposits in SMIF   | 42,768,000                       | 29,818,000              | 18,401,000                             | 35,862,000          | 26,419,000         | 11,072,000                        | 22,578,000             | 9,121,000           |
| Receivables  | 39,189,231                       |                         |  |                     |                    |                                   | 7,641                  |                     |
| Due from Other Funds <sup>1</sup>  | 1,089,272                        | 68,274,466              | 5,332,066                              | 4,299,252           | 2,584,627          | 2,576,065                         | 874,225                | 4,492,519           |
| Prepaid Expenses   |                                  |                         |  |                     |                    |                                   | 55,382                 |                     |
| Total Assets   | \$85,330,337                     | \$98,092,531            | \$23,733,899                           | \$40,161,888        | \$29,004,135       | \$13,648,870                      | \$23,564,974           | \$13,614,178        |
| Liabilities  |                                  |                         |  |                     |                    |                                   |                        |                     |
| Accounts Payable   |                                  |                         |  |                     |                    |                                   |                        |                     |
| Due to Other Funds <sup>1</sup>  | \$85,326,065                     |                         | \$ 3,502,621                           | \$ 1,111,608        | \$ 86,680          | \$ 115,234                        | \$ 319,740             |                     |
| Due to Other Governments   |                                  | \$98,092,531            | 500,223                                | 17,813,305          | 472,433            | 694,755                           | 155,812                |                     |
| Total Liabilities  | 85,326,065                       | 98,092,531              | 4,002,844                              | 18,924,913          | 3,945,594          | 454,554                           |                        | \$ 2,972,528        |
| End Balance  |                                  |                         |  |                     |                    | 1,264,543                         | 475,552                | 2,972,528           |
| Restricted for purposes specified in the California Children and Families Act of 1998 <sup>2</sup> |                                  |                         |  |                     |                    |                                   |                        |                     |
| Total Fund Balance   | 4,272                            | 0                       | 19,731,055                             | 21,236,975          | 24,499,428         | 12,384,327                        | 23,089,422             | 10,641,650          |
| Total Liabilities and Fund Balance   | \$85,330,337                     | \$98,092,531            | \$23,733,899                           | \$40,161,888        | \$29,004,135       | \$13,648,870                      | \$23,564,974           | \$13,614,178        |

The accompanying notes are an integral part of the financial statements.

<sup>1</sup> See Note 2  
<sup>2</sup> See Note 3



# STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

## First 5 California Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2012

|   | Children and Families Trust Fund <sup>(1)</sup> | Couples Account <sup>(2)</sup> | Mass Media Communications Account <sup>(3)</sup> | Education Account <sup>(4)</sup> | Child Care Account <sup>(5)</sup> | Research and Development Account <sup>(6)</sup> | Abstinence/Religion Account <sup>(7)</sup> | Unallocated Account <sup>(8)</sup> |
|---|---|--------------------------------|--|----------------------------------|-----------------------------------|---|--|------------------------------------|
| Revenue   |   |                                |  |                                  |                                   |   |  |                                    |
| Cigarette Tax Revenue                                     | \$ 499,012,028                                  |                                |  |                                  |                                   |   |  |                                    |
| SMIF Interest Revenue                                     | 107,951   | \$ 64,929                      | \$ 121,192                                       | \$ 138,253                       | \$ 100,460                        | \$ 73,942                                       | \$ 87,788                                  | \$ 23,001                          |
| Other Revenue   |   |                                | 720,266  |                                  |                                   |   |  |                                    |
| Total Revenue   | 499,119,979                                     | 64,929                         | 841,458  | 138,253                          | 100,460                           | 73,942  | 87,788                                     | 23,001                             |
| Expenditures  |   |                                |  |                                  |                                   |   |  |                                    |
| Appropriation Expenditures                                | 15,711,540                                      | 373,591,680                    | 40,532,104                                       | 27,298,747                       | 12,739,030                        | 19,529,613                                      | 6,028,256                                  | 4,145,974                          |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 483,408,439                                     | (373,526,751)                  | (39,690,646)                                     | (27,160,494)                     | (12,638,570)                      | (19,455,671)                                    | (5,940,468)                                | (4,122,973)                        |
| Other Financing Sources & Uses                            |   |                                |  |                                  |                                   |   |  |                                    |
| Operating Transfers In <sup>3</sup>                       |   |                                | 28,014,506                                       | 23,345,422                       | 14,007,253                        | 14,007,253                                      | 4,669,084                                  | 9,338,169                          |
| Operating Transfers Out <sup>3</sup>                      |   |                                |  |                                  |                                   |   |  |                                    |
| Net Change in Fund Balance                                | 0   | 0                              | (11,676,140)                                     | (3,815,072)                      | 1,368,683                         | (5,448,418)                                     | (1,271,384)                                | 5,215,196                          |
| und Balance July 1, 2011                                  | 4,272   | 0                              | 31,407,195                                       | 25,052,047                       | 23,130,745                        | 17,832,745                                      | 24,360,806                                 | 5,426,454                          |
| und Balance June 30, 2012                                 | \$ 4,272  | \$ 0                           | \$ 19,731,055                                    | \$ 21,236,975                    | \$ 24,499,428                     | \$ 12,384,327                                   | \$ 23,089,422                              | \$ 10,641,650                      |

The accompanying notes are an integral part of the financial statements.

<sup>3</sup> See Note 5

# NOTES TO FINANCIAL STATEMENTS

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## **First 5 California Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2012**

### **NOTE 1 Summary of Significant Accounting Policies**

#### **A. Definition of Reporting Entity**

The Children and Families Trust Fund (Fund) and its related accounts were created by the *California Children and Families Act of 1998* (Act). Programmatic and fiscal oversight for the Act was placed with the California Children and Families Commission (State Commission). Subsequent to the Act, legislation was passed that provided for the State Commission to also be known as First 5 California. The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age.

The programs authorized by this Act are administered by First 5 California and by county children and families commissions. The First 5 California Commission is comprised of seven members. During fiscal year 2011-12 two seats were vacated and filled by new commissioners.

Prior to January 1, 1999, the State Board of Equalization (BOE) was authorized to collect 37 cents for each cigarette pack distributed. On January 1, 1999, section 30131.2 of the Revenue and Taxation Code authorized BOE to collect an additional 50 cents for each cigarette pack distributed and a surtax on other tobacco products for a total of 87 cents for each cigarette pack. Of the 87 cents collected, 50 cents is allocated and deposited into the Fund. The remainder funds the Proposition 99 and Breast Cancer programs.

While First 5 California has the full responsibility for the program and financial statements, BOE receives, accounts for, and deposits the cigarette tax revenue into the Fund. Further, the Department of General Services performs accounting services for First 5 California.

The Fund was established to provide funding for promoting, supporting, and improving the early development of children from the prenatal stage to five years of age with emphasis on community awareness, education, nurturing, child care, social services, health care, and research. It primarily functions as a pass-through account which transfers funds to the seven related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and First 5 California receives 20 percent, which is allocated to six separate accounts that implement specific functions of the Act, as illustrated in Table 1.

**Table 1: California Children and Families Trust Fund (0623)  
Cigarette Tax Revenue Allocation**

| Account | Account Title                          | Percent Allocation | Account Purpose  |
|---------|--|--------------------|--|
| 0585    | Counties Children and Families Account | 80%                | For allocation to county commissions <sup>1</sup> for the purposes authorized in the <i>California Children and Families Act of 1998 (Act)</i> and in accordance with each county's strategic plan. All county commission expenditures must be incurred in accordance with the provisions of the Health and Safety Code section 130105 (d)(2). |
| 0631    | Mass Media Communications Account      | 6%                 | For funding of communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the Act. <sup>2</sup>   |
| 0634    | Education Account                      | 5%                 | For funding of education goals and purposes as specified in the Act. <sup>2</sup>  |
| 0636    | Child Care Account                     | 3%                 | For funding of child care goals and purposes as specified in the Act. <sup>2</sup>   |
| 0637    | Research and Development Account       | 3%                 | For funding research and development goals and purposes as specified in the Act. <sup>2</sup>  |
| 0638    | Administration Account                 | 1%                 | For funding of administrative costs and other purposes as specified in the Act. <sup>2</sup>   |
| 0639    | Unallocated Account                    | 2%                 | For funding any other purposes of the Act except for administrative costs.   |

**B. Basis of Presentation—Fund Accounting**

The Fund and related accounts are classified as *Other Governmental Cost Funds* for State of California financial reporting purposes. *Other Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

**C. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

<sup>1</sup> Each First 5 county commission is allocated funds from Account 0585 based on the number of live births recorded in each county in proportion to the entire number of live births recorded statewide. For the fiscal year 2011-12 allocations, the 2009 birth vital statistics compiled by the California Department of Public Health were used as this was the most recent reporting period available.

<sup>2</sup> Effective September 22, 2009, Assembly Bill 1422, Chapter 157, statutes of 2009, amends the Act to allow any funds not needed in these five accounts to be transferred to the *Unallocated Account (0639)* upon approval by the First 5 California Commission.

**D. Budget and Budgetary Control**

The accounting policies of First 5 California conform to the State Administrative Manual (SAM) based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. First 5 California's management is responsible for exercising budgetary control to ensure that appropriations are not overspent at the Fund and related accounts level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

**E. Deposits in Surplus Money Investment Fund**

Investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Fund and related accounts participate in the State of California's Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs are transferred to the SMIF for investment purposes. All earnings derived from investments of the SMIF are apportioned to the contributing fund as provided in the Government Code.

**F. Revenue**

Revenue consists of the cigarette taxes collected on sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the SMIF, refunds from reverted appropriations, and unclaimed checks escheated to the issuing fund.

**G. Compensated Absences**

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

**H. Retirement Plan**

Employees of First 5 California are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the *State of California Comprehensive Annual Financial Report*, and to the *CalPERS Comprehensive Annual Financial Report*.

**NOTE 2 Due From Other Funds and Due To Other Funds**

The Due From Other Funds includes cigarette tax and SMIF interest revenue accruals, and an adjustment for estimated versus actual BOE expenditures. Additionally, the Unallocated Account (0639) includes reimbursement accruals for expenditures incurred on behalf of the other accounts.

**Table 2: Due From Other Funds**

| <b>Fund/Account</b>                           | <b>Fund/Account Due From</b>             | <b>Amount</b>       |
|---|--|---------------------|
| <b>Fund 0623: Trust Fund</b>                  |  |                     |
|   | BOE General Fund (0001)                  | \$1,065,460         |
|   | Surplus Money Investment Fund (0681)     | <u>23,812</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$1,089,272</b>  |
| <b>Account 0585: Counties</b>                 |  |                     |
|   | Children and Families Trust Fund (0623)  | \$68,260,852        |
|   | Surplus Money Investment Fund (0681)     | <u>13,614</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$68,274,466</b> |
| <b>Account 0631: Mass Media</b>               |  |                     |
|   | Children and Families Trust Fund (0623)  | \$5,119,564         |
|   | Health Care Deposit Fund (0912)          | 186,121             |
|   | Surplus Money Investment Fund (0681)     | <u>26,381</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$5,332,066</b>  |
| <b>Account 0634: Education</b>                |  |                     |
|   | Children and Families Trust Fund (0623)  | \$4,266,303         |
|   | Surplus Money Investment Fund (0681)     | <u>32,949</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$4,299,252</b>  |
| <b>Account 0636: Child Care</b>               |  |                     |
|   | Children and Families Trust Fund (0623)  | \$2,559,782         |
|   | Surplus Money Investment Fund (0681)     | <u>24,845</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$2,584,627</b>  |
| <b>Account 0637: Research and Development</b> |  |                     |
|   | Children and Families Trust Fund (0623)  | \$2,559,782         |
|   | Surplus Money Investment Fund (0681)     | <u>16,283</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$2,576,065</b>  |
| <b>Account 0638: Administration</b>           |  |                     |
|   | Children and Families Trust Fund (0623)  | \$853,261           |
|   | Surplus Money Investment Fund (0681)     | <u>20,964</u>       |
|   | <b>Total Due From Other Funds</b>        | <b>\$874,225</b>    |
| <b>Account 0639: Unallocated</b>              |  |                     |
|   | Children and Families Trust Fund (0623)  | \$1,706,521         |
|   | Mass Media Communications Account (0631) | 500,223             |
|   | Education Account (0634)                 | 1,111,608           |
|   | Child Care Account (0636)                | 472,433             |
|   | Research and Development Account (0637)  | 694,755             |
|   | Surplus Money Investment Fund (0681)     | <u>6,979</u>        |
|   | <b>Total Due From Other Funds</b>        | <b>\$4,492,519</b>  |

The Due To Other Funds represents the cigarette tax revenue accrued for transfer to the related accounts as of year-end, and reimbursements to the Unallocated Account (0639) at year-end.

**Table 3: Due To Other Funds**

| <b>Fund/Account</b>                           | <b>Due From Fund/Account</b>             | <b>Amount</b>       |
|---|--|---------------------|
| <b>Fund 0623: Trust Fund</b>                  |  |                     |
|   | Counties' Account (0585)                 | \$68,260,852        |
|   | Mass Media Communications Account (0631) | 5,119,564           |
|   | Education Account (0634)                 | 4,266,303           |
|   | Child Care Account (0636)                | 2,559,782           |
|   | Research and Development Account (0637)  | 2,559,782           |
|   | Administration Account (0638)            | 853,261             |
|   | Unallocated Account (0639)               | <u>1,706,521</u>    |
|   | <b>Total Due To Other Funds</b>          | <b>\$85,326,065</b> |
| <b>Account 0631: Mass Media</b>               |  |                     |
|   | Due To Unallocated Account (0639)        | \$500,223           |
| <b>Account 0634: Education</b>                |  |                     |
|   | Due To Unallocated Account (0639)        | \$1,111,608         |
| <b>Account 0636: Child Care</b>               |  |                     |
|   | Due To Unallocated Account (0639)        | \$472,433           |
| <b>Account 0637: Research and Development</b> |  |                     |
|   | Due To Unallocated Account (0639)        | \$694,755           |
| <b>Account 0638: Administration</b>           |  |                     |
|   | General Fund                             | \$100,263           |
|   | Various other funds                      | <u>55,549</u>       |
|   | <b>Total Due To Other Funds</b>          | <b>\$155,812</b>    |

**NOTE 3 Fund Balance**

First 5 California financial statements comply with the fund balance reporting requirement detailed in Statement Number 54 issued by the Governmental Accounting Standards Board (GASB 54). GASB 54 provides the following classifications of the fund balance.

- A. ***Nonspendable Fund Balance:*** Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- B. ***Restricted Fund Balance:*** Amounts that are restricted to specific purposes because of constraints placed on the use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

- C. *Committed Fund Balance*: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the Fund and related accounts is the State Commission and the formal action required to establish a fund balance commitment is a majority vote.
- D. *Assigned Fund Balance*: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Executive Director or designee per the State Commission Bylaws, pursuant to Health and Safety Code section 13030, can assign funds to contracts of up to \$150,000 for purposes authorized in the Act.
- E. *Unassigned Fund Balance*: The unassigned fund balance classification is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

In accordance with GASB 54 the entire fund balance is classified as Restricted because the Act comprises enabling legislation for the Fund and related accounts as outlined in Note 1.

#### **NOTE 4 Department of Development Services (DDS) Early Start Program Expenditures**

On April 18, 2012, the State Commission authorized \$50 million in 2011-12 funding for the DDS Early Start Program, administered by DDS to fund Regional Centers providing services to children through age 2. The table below reflects the expenditures by fund.

**Table 4: Early Start Program Expenditures**

| Account                                | Amount            |
|--|-------------------|
| Account 0631: Mass Media               | \$25,000,000      |
| Account 0634: Education                | 7,000,000         |
| Account 0636: Child Care               | 4,000,000         |
| Account 0637: Research and Development | <u>14,000,000</u> |
| Total                                  | \$50,000,000      |

#### **NOTE 5 Operating Transfers**

Legally authorized transfers between state funds are reported on the *Statement of Revenue, Expenditures, and Changes in Fund Balance* as Operating Transfers In or Operating Transfers Out, and are accounted for as increases or decreases in residual equity.

The Fund's Operating Transfers Out represents the sum of the operating transfers into the seven related accounts and the statutorily required backfill of \$16.5 million for the Proposition 99 and Breast Cancer programs. The Transfers In for the seven related accounts are calculated based on the applicable allocation percentages specified in Note 1. Balances are derived as follows in Table 5.



**Table 5: Operating Transfers**

|  |                     |
|--|---------------------|
| Cigarette Tax Revenue (Fund 0623):               |                     |
| Current Year                                     | \$499,012,028       |
| SMIF Interest Revenue                            | 107,951             |
| Board - State Operations                         | <u>(15,711,540)</u> |
| Total Operating Transfers Out                    | 483,408,439         |
| Backfill   | <u>(16,500,000)</u> |
| Total Operating Transfers In<br>Related Accounts | \$466,908,439       |

Section 130105 of the Health and Safety Code requires the Fund on an annual basis to backfill the loss of funding for certain Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) and Breast Cancer Fund programs to offset the revenue loss from declining cigarettes and tobacco product consumption resulting from the imposition of additional taxes on cigarettes and tobacco products by the Act. BOE makes the fiscal determination and transfers the appropriate funds.

**NOTE 6 Contingent Liabilities**

BOE is involved in legal proceedings that, if decided against BOE, may result in a loss of funds available for transfer to the various programs supported by tobacco taxes. No provision for the potential liability has been made in the financial statements.

1. Various tobacco retailers have filed claims for refunds for the tax year 2008-09, claiming that the methodology used in setting the tax rate for the fiscal year was improper. These refund claims are currently in the administrative appeals process and total \$465,920. The impact to the Fund is estimated at 36.5 percent of the total refunds.
2. A tobacco products distributor has been audited and a liability totaling \$5,557,468, including penalties and interest, has been assessed for the audit periods February 2006 through December 2008. The assessment was appealed, and the case is in the administrative appeals process. The impact to the Fund is estimated at 36.5 percent.

**NOTE 7 Subsequent Events**

A. *Assembly Bill 1464 (AB 1464), Chapter 21, Statutes of 2012 (2012-13 Budget)*, makes appropriations, enacts statutory changes for support of state government, and reflects the final decisions of the Legislature relative to the 2012-13 Budget. The budget language includes the following:

- \$40 million for the Department of Health Care Services for the Medi-Cal Program.
- \$40 million for the Department of Developmental Services for the Early Start Program.
- Directs agencies to seek funding from First 5 California to support projects related to poison control.

The authorization of the transfer of money from First 5 California funds in response to the budget bill would require State Commission approval. As of the date of this report, the State Commission had not taken action on the AB 1464 funding requests. Therefore, the amount of funding for these commitments cannot be estimated at this time.

- B. On October 17, 2012, the State Commission authorized First 5 California to extend funding of \$42 million over three years for the CARES Plus program beginning in 2013-14.